

The background of the slide is a dense, overlapping pattern of US coins, including pennies, nickels, and quarters, rendered in a light, semi-transparent style.

Core Fund Annuity Adjustment Projections

Joint Information Meeting
March 10, 2011

Board	Mtg Date	Item #
Jl	3.10.11	3C

Assumptions

- Based on 2010 actual Core Trust Fund investment returns.
- Includes 2006 - 2009 investment gains and losses carried forward in the Market Recognition Account (MRA).
- Annuities will be increased if annuity reserve surplus provides at least a 0.5% increase.
- Annuities will be reduced if annuity reserve shortfall would require at least a -0.5% adjustment .

Assumptions (cont.)

- Negative adjustments can only reduce increases granted in prior years. A core annuity cannot be reduced below the original value.
- 0.4% per year is reserved for mortality improvement and other actuarial adjustments and is not available for annuity adjustments.

Market Recognition Account

- Investment gains / losses are “smoothed” through the Market Recognition Account (MRA):
 - The MRA is intended to give recognition to long-term changes in asset values while minimizing the impact of short-term fluctuations in the capital markets;
 - Investment gains equal to the assumed rate (7.8%) are recognized;
 - The difference between actual gains or losses and the assumed rate is spread equally over 5 years.

At the end of 2010 there is a \$5.1 billion investment loss to be recognized in future years

	Year to Be Recognized (millions \$)				
Year Earned	2010	2011	2012	2013	2014
2010	401	401	401	401	401
2009	1,288	1,288	1,288	1,288	
2008	(5,370)	(5,370)	(5,370)		
2007	212	212			
2006	1,065				
Totals	(2,404)	(3,469)	(3,681)	1,689	401

Current Value of Annuities

If You Retired in	A \$1,000 Core Annuity is Receiving	The Annual Rate of Increase is	A \$1,000 Variable Annuity is Receiving	The Annual Rate of Increase is	The Annual Change in CPI is
2006	\$1,057	0.9%	\$890	(1.9%)	2.2%
2001	\$1,200	1.7%	\$665	(3.6%)	2.3%
1996	\$1,827	3.8%	\$1,443	2.3%	2.4%
1991	\$2,265	4.0%	\$1,638	2.4%	2.5%
1986	\$3,230	4.6%	\$2,771	4.0%	2.8%

A 7.8% investment return in 2011
will result in an annuity adjustment
between -2.5% and -2.9%

	2010	2011	2012	2013	2014	2015
SWIB Net Investment Return	12.4%	7.8%	7.8%	7.8%	7.8%	7.8%
Effective Rate	4.8%	3.1% to 3.5%	2.8% to 3.2%	10.4% to 10.8%	8.5% to 8.9%	8.0% to 8.4%
Annuity Adjustment	-1.2%	-2.5% to -2.9%	-2.9% to -3.3%	3.9% to 4.3%	2.5% to 2.9%	2.0% to 2.4%

A 0% investment return in 2011 will result in an annuity adjustment between -3.9% and -4.3%

	2010	2011	2012	2013	2014	2015
SWIB Net Investment Return	12.4%	0.0%	7.8%	7.8%	7.8%	7.8%
Effective Rate	4.8%	1.6% to 2.0%	1.1% to 1.5%	8.7% to 9.1%	6.8% to 7.2%	6.3% to 6.7%
Annuity Adjustment	-1.2%	-3.9% to -4.3%	-4.5% to -4.9%	2.3% to 2.7%	1.0% to 1.4%	0.4% to 0.8%

An investment return between 17.2% and 19.2% in 2011 is needed to avoid a negative annuity adjustment

	2010	2011	2012	2013	2014	2015
SWIB Net Investment Return	12.4%	17.2% to 19.2%	7.8%	7.8%	7.8%	7.8%
Effective Rate	4.8%	5.2% to 5.6%	5.5% to 5.9%	12.9% to 13.3%	10.9% to 11.3%	10.3% to 10.7%
Annuity Adjustment	-1.2%	0.0%	-1.4% to -1.8%	6.1% to 6.5%	4.7% to 5.1%	4.1% to 4.5%

Above average returns will be needed
for the next two years to avoid future
negative annuity adjustments

	2010	2011	2012	2013	2014	2015
SWIB Net Investment Return	12.4%	17.2% to 19.1%	9.2% to 11.3%	7.8%	7.8%	7.8%
Effective Rate	4.8%	5.2% to 5.6%	5.6% to 6.0%	12.9% to 13.3%	10.9% to 11.3%	10.3% to 10.7%
Annuity Adjustment	-1.2%	0.0%	0.0%	5.7% to 6.1%	4.7% to 5.1%	4.1% to 4.5%

An investment return between 23.0% and 24.8% in 2011 is needed to pay a positive annuity adjustment

	2010	2011	2012	2013	2014	2015
SWIB Net Investment Return	12.4%	23.0% to 24.8%	7.8%	7.8%	7.8%	7.8%
Effective Rate	4.8%	6.3% to 6.7%	6.2% to 6.6%	13.9% to 14.3%	11.9% to 12.3%	11.2% to 11.6%
Annuity Adjustment	-1.2%	0.5%	0.5% to 0.8%	7.1% to 7.5%	5.6% to 6.0%	4.9% to 5.1%

The background of the slide is a dense, overlapping pattern of various US coins, including pennies, nickels, dimes, and quarters, rendered in a light, faded gray tone. The coins are scattered across the entire frame, creating a textured, metallic backdrop.

Questions?